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Highland - Bell

LIMITED

30th

Annual Report - 1965

Annual Meeting



The Annual General Meeting of the Shareholders will be held on Thursday, the 28th day of April, 1966 at 10:30 o'clock in the morning at the Kent Room, Hotel Georgia, Vancouver, B.C.

HIGHLAND-BELL LIMITED

(Incorporated under the Laws of the Province of British Columbia)

Authorized Capital:

340,000 5% non-cumulative redeemable preferred shares of
\$1.00 par value per share.

1,660,000 common shares of \$1.00 par value per share.

DIRECTORS

KARL J. SPRINGER	- - - - -	Toronto, Ont.
J. J. CROWHURST	- - - - -	Vancouver, B.C.
R. A. C. DOUGLAS	- - - - -	Vancouver, B.C.
J. H. C. McCLELLAND	- - - - -	Toronto, Ont.
W. A. McELMOYLE	- - - - -	Victoria, B.C.
M. M. O'BRIEN	- - - - -	Vancouver, B.C.
R. E. PURVIS	- - - - -	Seattle, Wash.

OFFICERS

KARL J. SPRINGER	- - - - -	President
J. H. C. McCLELLAND	- - - - -	Vice-President
J. J. CROWHURST	- - - - -	Vice-President in Charge of Operations
J. D. MUNROE	- - - - -	Secretary-Treasurer

OTHER EXECUTIVES

O. S. PERRY	- - - - -	Mine Manager
W. R. BACON	- - - - -	Exploration Manager

AUDITORS

PEAT, MARWICK, MITCHELL & CO. - - - - - Vancouver, B.C.

SOLICITORS

DOUGLAS, SYMES & BRISSENDEN - - - - - Vancouver, B.C.

TRANSFER AGENTS

THE CANADA TRUST COMPANY - - - - - Vancouver, B.C. and Toronto, Ont.

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE - - - - - Vancouver and Penticton, B.C.

EXECUTIVE OFFICE: 502 - 1200 WEST PENDER STREET, VANCOUVER 1, B.C.

Report of the Directors

To the Shareholders:

Your directors hereby present their report for the year ended December 31st, 1965, together with the Mine Manager's report and Consolidated Financial Statements and the Auditors' Report thereon.

MINE

Tons milled was slightly lower than 1964 but higher than other previous years. The grade in silver, however, has been steadily declining with depth and averaged 27.92 oz. per ton for the year compared to 32.28 oz. in 1964 and 46.48 oz. in 1961. It is possible that this tenor will continue as mining continues to depth. At the same time mine exploration and development was considerably increased in order to enlarge ore reserves and this program will continue. A shortage of labour has handicapped operations.

EARNINGS

Operating profit at the mine dropped to \$290,054 from \$617,375 in 1964 and \$808,586 in 1963 due mainly because of lower grade ore and increased mine exploration and development as mentioned above.

Income from other sources was \$180,645. This should increase substantially especially in 1967 when Mattagami Lake Mines Limited is expected to pay dividends.

INVESTMENTS

Marketable securities and short term investments at year end had a market value of \$7,744,315.

The main items were:

Mattagami Lake Mines Limited ..	320,000 shares
Leitch Gold Mines Limited ..	300,000 shares
Canada Tungsten Mining Corporation Ltd.	259,465 shares

Mattagami Lake Mines Limited had profits before writeoffs of \$20,107,000 or \$3.04 per share in 1965. In the latter part of 1964 the expansion of the zinc plant (in which Mattagami Lake Mines Limited owns 62.5%) to double its original capacity, will be completed. The new acid and roasting plant will also substantially increase the zinc plant earnings. All debts should be paid and a cash surplus accumulated by the end of 1966, which will enable the company to initiate dividends in 1967.

Leitch Gold Mines Limited ceased production in early 1965 at their Beardmore, Ontario property, after thirty years of continuous gold production. Investments having a book value of \$1,950,675 and a quoted market value of \$9,059,332 were held at year end.

Canada Tungsten Mining Corporation Ltd., enjoyed an excellent year during 1965 and in doing so fulfilled its early promise as an important producer of high quality tungsten concentrates. Contributing factors were the substantial increase in the world market price of tungsten and an improvement in the metallurgy.

HOLDINGS IN OTHER COMPANIES

(not included under marketable securities)

BURNABY IRON MINES LIMITED (534,750 shares) carried out a second diamond drill program at their property in the southern Queen Charlotte Islands during the summer of 1965. A total of 6,735 feet representing the deepening of several previously drilled holes and the completion of several new holes was carried out. Before dilution, 3,571,000 tons grading 49.5% iron of reasonably assured ore and 4,640,000 tons of the same grade of speculative ore is now indicated. Discussions are continuing with outside interests to provide capital for further development.

NEWFOUNDLAND ZINC MINES LIMITED (528,018 shares) completed 133 holes in 1965 totalling 14,204 feet. It is now estimated that 1,562,900 tons averaging 8.36% zinc before dilution are contained in five separate areas of mineralization. Further work is planned for 1966.

CARIBOO-BELL COPPER MINES LIMITED (420,625 shares acquired since January 1st, 1966) was formed late in 1965 by your Company and Leitch Gold Mines Limited to acquire a group of claims in the Cariboo Mining Division 36 miles northeast of Williams Lake, B.C. Your Company's prospectors had discovered large areas of copper mineralization on these claims in 1964.

During 1965 a magnetometer survey and an induced polarization survey, together with detailed geochemical work was undertaken in one selected area of the property.

Four interesting anomalies resulted from the I.P. survey ranging in length from 1,000 feet to 2,600 feet and in width from 310 feet to 470 feet. Subsequently 21,000 lineal feet of trench-

ing spaced at 400-foot intervals disclosed three substantial copper bearing zones, measuring from 600 feet to 1,400 feet in length and 80 feet to 455 feet in width — with copper assays ranging from 0.33% to 0.48%. Diamond drilling is currently in progress.

PINE BELL MINES LIMITED (387,500 shares acquired since January 1st, 1966) was incorporated as an Ontario company with an authorized capital of 4,000,000 shares of \$1.00 par value to acquire 316 claims staked by your Company and Leitch Gold Mines Limited south of the Pyramid Mines Limited property in the Northwest Territories. These claims are about five miles south of the Pine Point Mines Limited series of orebodies. Exploration consisting of line-cutting and induced polarization survey work is currently being carried out on the property.

HIGHLAND MERCURY MINES LIMITED (326,623 shares acquired since January 1st, 1966). Your Company in conjunction with Leitch Gold Mines Limited staked four groups of claims on the strike of and adjoining the Pinchi Mercury Mine of Consolidated Mining & Smelting Company of Canada Limited in northern British Columbia. These claims were sold to the above company for shares.

Soil sampling for mercury gave indications of that metal in some areas. Development work will be carried out on the property during 1966.

MINERAL EXPLORATION

Western Canada—

Prospecting continued in central British Columbia on mineral claim groups previously acquired, together with the investigation of several new areas.

Two groups of claims were staked in the Alice Arm area to cover significant molybdenum discoveries made by your Company's prospectors. Further work is planned during 1966.

Prospecting and geological mapping were continued in 1965 on a zone located previously to cover molybdenum and copper mineralization discovered in the southern British Columbia coastal area. The development of these claims will be continued in 1966.

Options were taken on a mining prospect in British Columbia and one in Yukon Territory. Detailed examination in 1966 is planned.

Three groups of claims were staked by your company and Leitch Gold Mines Limited to

cover interesting uranium occurrences in Northern Saskatchewan and the Northwest Territories. Further prospecting is planned during 1966.

Eastern Canada—

Diamond drilling in Ontario and Quebec on anomalies discovered from data received from Texas Gulf Sulphur Company, incorporated under the Agreement dated February 1st, 1963, failed to locate anything of economic importance.

Diamond drilling carried out by the Ivanhoe Syndicate was disappointing. This work has been terminated.

Exploration was carried out in the Maritime area with some encouraging results, and will be continued.

Newfoundland Concessions—

Seventeen holes for a total of 2,066 feet were drilled on the Newfoundland Concessions on the Trapper showing located about 8 miles northeast of the Newfoundland Zinc Mines original discovery. The results were disappointing.

Texas Gulf Sulphur Co., Inc. —

In 1964 the Company and Leitch Gold Mines Limited (Plaintiffs) instituted an action in the Supreme Court of Ontario against Texas Gulf Sulphur Co., Inc. (Defendants) claiming breach of an agreement in which each of the plaintiffs has a one-half interest. The plaintiffs claim inter alia, certain lands, mining claims and mining rights and interest thereon and right thereto, or as an alternative, damages aggregating \$450,000,000.

Our legal advisors have been engaged in the examination and sorting of the very large volume of technical and other productions made by the Defendant and in preparation of the case for trial.

October 3rd, 1966 has been fixed for the commencement of the trial of this action.

It is a pleasure at this time to express our appreciation to your General Manager, Mr. J. J. Crowhurst; your Mine Manager, Mr. O. S. Perry; and your Exploration Manager, Dr. W. R. Bacon, and to their staffs for their fine co-operation and efficient work on behalf of your Company during the past year.

On behalf of the Board,
K. J. SPRINGER, President

Vancouver, B.C.
April 4, 1966.

Mine Manager's Report

The President and Directors
Mastodon-Highland Bell Mines Ltd.
502 — 1200 West Pender Street
Vancouver 1, B.C.

Dear Sirs:

The annual report on the operation of Mastodon-Highland Bell Mines Ltd. at Beaverdell, B.C. for the year 1965 is herewith submitted:—

MINE

Development work carried out along the contact of the intrusive diorite and the overlying Wallace formation of sediments and tuffs, has been pursued throughout the year. Previous development indicated that the ore crossed the sedimentary contact without change in strike character or grade. Follow up stoping in the sediments some three hundred feet beyond the contact now demonstrates that any ore located in this area is erratic and discontinuous and that the main ore zone does not continue into the sediments.

More recent work on the 2900 level has uncovered a series of faults which along with the influence of the Wallace contact, have radically changed the strike of the zone from north-east to due east. The rake of the ore has been reversed so that the zone has plunged from the 3000 level to the 2800 elevation. Here, it is again faulted back up above the 2900 level. At this date ore has been developed along the new strike over a length of 500 feet. Work is continuing following strong appearing structures containing heavily mineralized veins.

It is important to note that along with the change in strike, there has been a significant

decrease in grade of silver. Continued profitable operations are dependant on developing a sufficient tonnage of this lower grade to increase the daily tons milled. Drifting, cross-cutting and diamond drilling have been accelerated to capacity for this purpose.

LASS EXPLORATION

Stoping along the east terminal fault from the 2900, 3000 and 3100 levels, indicated a strong possibility that high grade ore may still be present east of the abandoned stopes on the seven level of the Lass. Accordingly, the old upper mine was re-opened and a new drift 1,200 feet in length was driven, by-passing the caved-in workings.

Two thousand feet of diamond drilling has been completed at the year's end from the new drift. Results of the drilling have been disappointing. No new ore of economic widths has been located. Additional drilling has been deferred pending work along the fault from the 3100 level.

BELL EXPLORATION

Rehabilitation of a cross cut on the seven level leading to the abandoned Bell workings was completed. Shortage of labour curtailed further activity. A diamond drill programme is planned to check known ore intersections and will begin as soon as entry can be gained to the Bell 4th level.

PLANT AND EQUIPMENT

The mine and mill machinery have been maintained in good order. Demands for electric power increase yearly so that the diesel electric plant is operating at near capacity.

EXPLORATION AND DEVELOPMENT

Summary:—

Diamond drilling.....

1964

7,905 feet

1965

23,291 feet

Cross cutting.....

422 feet

1,426 feet

Raising.....

684 feet

545 feet

Drifting.....

1,920 feet

2,374 feet

Unit cost per foot of advance:—

1963

1964

1965

Drifting and Crosscutting.....

\$23.39

\$27.14

\$26.00

Raising.....

27.19

33.22

33.34

MILLING

	1963	1964	1965
Ore Milled (tons)	21,689	25,090	23,213
Concentrates shipped (produced)—			
Jig	351	370	219
Lead	1,766	1,578	1,924
Zinc	734	573	418
	<u>2,851</u>	<u>2,521</u>	<u>2,561</u>

COSTS PER TON

	1964	1965
Exploration and development	4.28	10.70*
Mining	6.93	8.07
Milling	6.01	6.64
Ore handling and marketing	4.13	4.47
	<u>21.35</u>	<u>29.88</u>

*Includes Lass Exploration.

REVENUE

	1964	1965
Silver	\$1,049,913	\$839,387
Lead	61,292	75,918
Zinc	53,251	43,971
Gold	16,866	19,901
Cadmium	7,905	4,545
	<u>1,189,227</u>	<u>983,722</u>
Less: Freight and treatment	87,344	88,601
Net Revenue	<u>\$1,101,883</u>	<u>895,121</u>

PRODUCTION COMPARISON STATISTICS

Year	Dry tons milled	Ag. ozs. per ton	Ag. ozs. produced	Average net price paid by Smelter		
				Silver	Lead	Zinc
1961	18,954	46.48	880,892	89.16	6.36	4.24
1962	19,480	42.77	833,153	110.10	5.96	3.98
1963	21,689	40.48	877,861	129.04	6.99	4.71
1964	25,090	32.28	809,819	129.65	10.13	6.97
1965	23,213	27.92	647,993	129.54	12.18	7.38

GENERAL

Operating expenses at the mine as compared to 1964 increased by \$121,816 of which \$104,770 represent additional exploration and diamond drilling costs.

At the same time the average grade of ore milled decreased resulting in a drop in revenue of \$205,505.

Throughout the year there has been an acute shortage of skilled miners. This is being offset to some extent through training inexperienced

new employees. Labour relations have been generally quiet and normal.

The writer wishes to thank the President and Directors of the Company for their active assistance, and the staff for their loyal co-operation.

Respectfully submitted,
O. S. PERRY, Manager

Beaverdell, B.C.
March 4th, 1966.

HIGHLAND - BELL LIMITED

and subsidiary company MASTODON-HIGHLAND BELL MI

ASSETS

	<u>1965</u>	<u>1964</u>
Current assets:		
Cash	\$ 48,624	377,234
Marketable securities and short-term investments, at cost (market value \$7,744,315; 1964 \$9,245,726)	997,324	1,248,066
Accounts receivable:		
Smelter settlement	\$151,238	
Other	<u>11,329</u>	162,567
Accrued interest receivable	20,150	—
Inventory of supplies, at cost	38,422	35,532
Prepaid expenses	6,070	9,862
Refundable deposits	<u>650</u>	<u>625</u>
Total current assets	1,273,807	1,816,084
Other investments:		
Non-marketable securities	9,254	9,254
Buildings, machinery and equipment (Note 1):		
Producing mine, at cost	866,052	
Less accumulated depreciation	<u>627,576</u>	
	238,476	
Other mine, at estimated proceeds of disposal	<u>5,000</u>	243,476
	238,476	264,680
Leasehold improvements, at cost less amounts written off	2,202	3,303
Mineral claims and properties:		
Producing mine, at cost	1,723,699	
Other, at nominal value	<u>1</u>	1,723,700
	1,723,700	1,723,700
Incorporation and organization expenses	<u>3,560</u>	<u>3,560</u>
	<u>\$3,255,999</u>	<u>3,820,581</u>

Approved on behalf of the Board:

K. J. SPRINGER, Director

J. J. CROWHURST, Director

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consolidated balance sheet - December 31st, 1965

(With comparative figures for 1964)

LIABILITIES

	<u>1965</u>	<u>1964</u>
Current liabilities:		
Bank demand loan, secured by marketable securities	\$ 15,000	150,000
Accounts payable and accrued liabilities	78,169	90,681
Mining taxes payable	—	8,990
Total current liabilities	<u>93,169</u>	<u>249,671</u>
5% debenture payable	\$ 489,887	—
Less redeemed during year	<u>489,887</u>	—
Minority interest	1	1
Capital and surplus:		
Capital:		
5% non-cumulative redeemable preference shares of \$1 par value per share. Authorized 340,000 shares; issued and redeemed during the year 489,887 shares (1964 — 325,591).		
Common shares of \$1 par value per share. Authorized 1,660,000 shares; issued and fully paid 1,632,960 shares (1964 — 1,632,955):		
For cash (including 5 shares issued during the year)	\$ 50,010	—
For consideration other than cash	<u>1,582,950</u>	—
	<u>1,632,960</u>	—
Surplus, per accompanying statement	<u>1,529,869</u>	<u>3,162,829</u>
	<u><u>\$3,255,999</u></u>	<u><u>3,820,581</u></u>

See accompanying notes to consolidated financial statements.

HIGHLAND-BELL LIMITED

and subsidiary company

MASTODON-HIGHLAND-BELL MINES LIMITED

consolidated statement of profit and loss

Year ended December 31, 1965 • with comparative figures for 1964

	1965	1964
Concentrate sales	\$ 983,722	1,189,227
Mining and milling expenses:		
Ore handling and marketing	103,915	103,735
Stoping	187,276	173,972
Exploration and development	248,419	143,649
Mill operating	154,058	150,496
	<u>693,668</u>	<u>571,852</u>
Operating profit	290,054	617,375
Head office and administrative expenses (Note 4)	135,317	97,342
Outside exploration	202,881	202,474
	<u>338,198</u>	<u>299,816</u>
	<u>(48,144)</u>	<u>317,559</u>
Other income:		
Dividends	30,000	30,000
Interest	137,555	1,853
Gain on sale of investments	12,305	140,038
Miscellaneous	752	820
	<u>180,612</u>	<u>172,711</u>
Profit before depreciation and amortization and mining taxes	<u>132,468</u>	<u>490,270</u>
Depreciation (Note 1)	27,599	27,040
Amortization of preliminary development and pre-production expenses	—	194,140
	<u>27,599</u>	<u>221,180</u>
Profit before mining taxes	104,869	269,090
Mining taxes	(745)	8,990
Consolidated net profit for the year (Note 2)	<u>\$ 105,614</u>	<u>260,100</u>

See accompanying notes to consolidated financial statements.

HIGHLAND-BELL LIMITED
and subsidiary company
MASTODON-HIGHLAND-BELL MINES LIMITED

consolidated statement of surplus

Year ended December 31, 1965 • with comparative figures for 1964

	1965	1964
Earned:		
Balance at beginning of year	\$ 836,959	902,450
Add consolidated net profit for the year	<u>105,614</u>	<u>260,100</u>
	<u>942,573</u>	<u>1,162,550</u>
Deduct:		
Stock dividend	489,887	325,591
Amount written off on assets of non-producing mine	<u>23,846</u>	<u>—</u>
	<u>513,733</u>	<u>325,591</u>
	<u>428,840</u>	<u>836,959</u>
Contributed surplus arising from premiums on shares issued:		
Balance at beginning of year	22,500	10,500
Premiums on shares issued for cash during the year	<u>34</u>	<u>12,000</u>
	<u>22,534</u>	<u>22,500</u>
Excess of book value of shares of subsidiary company over purchase price at dates of acquisition	<u>1,078,495</u>	<u>1,078,495</u>
Total consolidated surplus at end of year	<u><u>\$1,529,869</u></u>	<u><u>1,937,954</u></u>

See accompanying notes to consolidated financial statements.

HIGHLAND-BELL LIMITED

and subsidiary compa

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Highland-Bell Limited and subsidiary company Mastodon-Highland Bell Mines Ltd. as of December 31, 1965 and the consolidated statements of profit and loss and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of profit and loss and surplus present fairly the financial position of the companies at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statements of working capital and source and application of funds present fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

Vancouver, B.C.
April 1, 1966.

MASTODON-HIGHLAND BELL MINES LTD.

1. Depreciation is being recorded in the accounts at 10% on the reducing balance of the buildings, machinery and equipment at the producing mine.
2. No taxes on income are payable for the year as:
 - (a) the subsidiary company intends to claim depreciation, development, pre-production and exploration expenses in excess of that recorded in the accounts.
 - (b) the parent company's income is derived mainly from tax-free dividends.
3. The subsidiary company and Leitch Gold Mines Limited (Plaintiffs) have instituted an action in the Supreme Court of Ontario against Texas Gulf Sulphur Company, Inc. (Defendants) claiming breach of an agreement in which each of the plaintiffs has an equal interest. The plaintiffs' claim, inter alia, certain lands, mining claims and mining rights and interest therein and rights thereto or as an alternative, damages of \$450,000,000. No provision has been made in the accounts for unbilled legal and consulting fees in connection with the action. Certain litigation costs incurred have been reflected in the accompanying financial statements.
4. The following payments were made during the year to, or on behalf of directors:

Salaries	\$40,000
Fees	2,100
Contributions to pension funds	1,152

Notes to Consolidated Financial Statements

December 31, 1965

HIGHLAND - BELL LIMITED
and subsidiary company
MASTODON-HIGHLAND BELL MINES LTD.

*consolidated statement of source and
application of funds*

Year ended December 31, 1965

Funds provided by:

Operations:

Consolidated net profit for the year	\$105,614
Add items not representing an outlay of funds:	
Depreciation	27,599
	<hr/>
Sale of machinery and equipment	133,213
Shares issued	39
Decrease in working capital	385,775
	<hr/>
	\$532,277

Funds applied to:

Purchase of buildings, machinery and equipment	\$ 42,390
Redemption of preference shares issued as a stock dividend	489,887
	<hr/>

	December 31,		Increase (Decrease)
	1965	1964	
Working capital changes:			
Current assets	\$1,273,807	1,816,084	(542,277)
Current liabilities	93,169	249,671	156,502
	<hr/>	<hr/>	<hr/>
	\$1,180,638	1,566,413	(385,775)

Highland-Bell
LIMITED

